

# **DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL**

Revision Date 04/15/02

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Page 1 of 8

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## **SUBJECT**

Encumbrance Procedure

## **PURPOSE**

To provide guidelines for the establishment, adjustment, liquidation and review of encumbrances.

## **AUTHORITATIVE REFERENCE**

K.S.A. 75-3025, 75-3026, 75-3728, 75-3730

## **GENERAL INFORMATION**

### **Introduction**

K.S.A. 75-3728 requires the Director of Accounts and Reports to formulate a central accounting system that provides records showing "at all times" the un-liquidated obligations and unencumbered balances of allotments or appropriations for each state agency. The Director is also required by K.S.A. 75-3730 to certify that a sufficient unencumbered balance is available before an obligation can be incurred or payment made against any fund, allotment, or appropriation. Each state agency is responsible for ensuring that it does not incur obligations or expend funds in excess of available appropriations. K.S.A. 75-3025 and K.S.A. 75-3026 provide penalties for the misuse of agency funds in incurring obligations in excess of amounts expressly authorized by law.

### **Obligations to be Encumbered**

The State utilizes a modified encumbrance method of accounting to help ensure that obligations are not incurred or expenditures made in excess of available funds, allotments or appropriations. This method of accounting requires that certain agency commitments be encumbered so that funds and/or spending authority are reserved for the future payment of goods which have not yet been received or for services which have not yet been rendered. Encumbrances are also used at the end of the fiscal year to record obligations that have been incurred during the year but will not be paid before the close of the fiscal year.

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**Revision Date** 04/15/02

**Date Issued** 07/72

**Revisions marked with #**

**Filing Number** 10,206

**Page 2 of 8**

---

Obligations that are required to be encumbered or have the option of being encumbered are as follows:

Purchase Orders - Agency purchases requiring the use of DA-101, Purchase Order, are generally encumbered. Exceptions include State Equipment Lease Purchases processed at the Kansas Development Finance Authority. Contact the Division of Purchases for additional information.

Contracts - Agency contractual obligations requiring the use of DA-146, Contract Cover Sheet, must be encumbered. Refer to PPM Filing 10,107 for more detailed information.

Real Estate Leases - The lease of land, buildings or space in buildings requiring the use of DA-46, Real Estate Lease Agreement, and DA-47, Real Estate Lease Agreement Cover Sheet, must be encumbered. Refer to PPM Filing 10,108 for more detailed information.

Year-end Obligations - All obligations that have been incurred but will not be paid by the end of the fiscal year and which have not been previously encumbered must be encumbered. These obligations must be processed on DA-118, List of Outstanding Obligations Funding. Refer to PPM Filing 14,002 for more detailed information.

Other - Any obligation not required to be encumbered on one of the other forms shown above may still be encumbered at the agency's discretion. Form DA-107, Encumbrance Authorization or Adjustment, is used to establish or adjust these encumbrances. Form DA-107 is prepared by the agency and submitted to the Audit Services Team for processing.

# DIVISION OF ACCOUNTS AND REPORTS

## POLICY AND PROCEDURE MANUAL

Revision Date 04/15/02

Date Issued 07/72

Revisions marked with #

Filing Number 10,206

Page 3 of 8

The following table summarizes the documents generally used to establish and adjust encumbrances for the various types of obligations. It also displays reference PPM filings where more information may be found.

TYPE OF OBLIGATION	ESTABLISHING AN ENCUMBRANCE	ADJUSTMENTS TO AN ENCUMBRANCE	REFERENCE FILING
PURCHASE ORDER (Purchases other than construction projects)	DA-101 - Purchase Order	DA-108 - Purchase Order Change Advice *	None
PURCHASE ORDER (Construction projects)	DA-101 - Purchase Order	DAS-1 - Contract Change Order *	None
CONTRACT	DA-146 - Contract Cover Sheet	DA-146 - Contract Cover Sheet * **	PPM Filing 10,107
REAL ESTATE LEASE	DA-46 - Real Estate Lease Agreement  DA-47 - Real Estate Lease Agreement Cover Sheet	DA-47 - Real Estate Lease Agreement Cover Sheet * **	PPM Filing 10,108
YEAR-END OBLIGATION	DA-118 - List of Outstanding Obligation Funding  DA-119 - List of Outstanding Obligations Detail	DA-107 - Encumbrance Authorization or Adjustment	PPM Filing 14,002
OTHER	DA-107 - Encumbrance Authorization or Adjustment	DA-107 - Encumbrance Authorization or Adjustment	None

\* DA-107 may be used for funding changes only

\*\* Some adjustments to the amount may be made by DA-107, depending on the language in the contractual agreement.

### Types of Encumbrances

Encumbrances may be either firm or contingent. The firm/contingent designation attests to the availability of funds for payment of the obligation at the time the encumbrance is recorded. In addition to firm and contingent, STARS allows for pre-encumbrances. A pre-encumbrance is a memo entry that may be used to record anticipated obligations without reducing the available expenditure limitation or available unencumbered cash balance. If the correct transaction codes are used, a pre-encumbrance can be automatically liquidated when an encumbrance is recorded for the obligation previously pre-encumbered or when a payment is processed against the pre-encumbrance. Use of this feature is at the discretion of each agency. Pre-encumbrance transactions can only be entered on-line using the STARS transaction data entry feature.

The firm and contingent encumbrance types are discussed below:

Firm - Firm encumbrances are used for obligations that will be paid in the future from funds that

# **DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL**

**Revision Date** 04/15/02

**Date Issued** 07/72

**Revisions marked with #**

**Filing Number** 10,206

**Page 4 of 8**

# have been received and are currently available. Firm encumbrances reduce the available unencumbered cash balance and the available spending authority of the appropriation or limitation.

# Contingent - Contingent encumbrances are used for obligations that will be paid in the future from anticipated funds expected to be available when the obligation becomes due. Contingent encumbrances reduce the available expenditure limitation balance but do not reduce the available unencumbered cash balance of a fund. Contingent encumbrances may be used to record any obligation. All encumbrances against fund 1000, State General Fund, must be contingent.

## **Encumbrance Payment Limitations**

To provide flexibility when making payments against an encumbrance, final payment limits have been established by the Director of Accounts and Reports. These limits allow the final payment (and only the final payment) against an encumbrance to exceed the remaining encumbrance balance in certain circumstances. Payment limits are only effective on the final payment against an encumbrance (modifier coded "F") and the limit is computed based on the original encumbrance amount. The payment limits are determined by the document prefix assigned to the document that established the encumbrance. The three document prefixes and the limits and usage of each are as follows:

- A - The final payment may not exceed the encumbrance balance. This type should be used when the exact amount or maximum payment of the obligation is known and not subject to incidental amounts (e.g. shipping charges, etc.) unless included in the maximum amount.
- B - The final payment may exceed the encumbrance balance by the lesser of \$100 or 10% of the adjusted original encumbrance amount (original encumbrance amount + or - adjustments). This option may be used when incidental amounts (e.g. shipping charges, etc.) are to be added to the billing yet the exact amount is unknown at the time the obligation is incurred.
- C - The final payment may exceed the encumbrance balance by the lesser of \$9,999 or 999% of the adjusted original encumbrance amount (original encumbrance amount + or - adjustments). This option may be used when purchases are based on approximated quantities (e.g. pounds, feet, sheets, etc.) where the quantity shipped often varies slightly from the approximation due to the inherent nature of the goods purchased.

# DIVISION OF ACCOUNTS AND REPORTS

## POLICY AND PROCEDURE MANUAL

Revision Date 04/15/02

Date Issued 07/72

Revisions marked with #

Filing Number 10,206

Page 5 of 8

---

### Encumbrance Transactions

Specific transaction codes have been established to set up, pay against, adjust and cancel each type of encumbrance. State agencies may request STARS Report DAFR8640, Transaction Code Decision Table, using the normal STARS report request procedures to obtain a current listing of transaction codes. (See table in *Procedures*.)

When setting up encumbrances, each transaction line on the encumbrance document is considered an encumbrance in STARS and is uniquely identified by the current document number and suffix. Transactions entered into STARS involving an established encumbrance must have the encumbrance document number/suffix in the Reference Documents and suffix fields, respectively.

Payments made against an encumbrance must use a code "F", "P", or "A" in the M (modifier) column. "F" is used on vouchers submitted to make the final payment, "P" for payments that are not the final payments, or "A" if the encumbrance was previously cancelled or liquidated in error. To use "A," the encumbrance must still be in the STARS document file. "A" can pay up to the amount that would have been allowed if the encumbrance was not cancelled. The use of the "F" code will cancel any remaining encumbrance balance. ***Note: The "F" code must only be used on the last transaction line of the final payment being made against the encumbrance. Using the "F" code on any transaction line other than the last will result in the encumbrance being cancelled at that point and following transaction lines will not process.*** Edits on payments against an encumbrance allow flexibility by only requiring that the payment amount falls within the limits indicated by the document number prefix and that the agency number, budget fiscal year, fund and budget unit match those on the encumbrance and that there is sufficient cash in the fund. Failure to meet the established criteria results in a fatal error requiring the encumbrance or the payment to be adjusted before processing the payment. Differences in data elements other than those listed result in a warning message that does not stop the process.

An adjustment to an encumbrance is required when a payment against the encumbrance falls outside of the scope of the limitation or when the payment must be funded differently than the original encumbrance.

An encumbrance should be cancelled if for some reason the obligation becomes void. Encumbrance balances may be cancelled by use of form DA-107, Encumbrance Authorization or Adjustment, or one of the other various encumbrance adjustment documents shown in the table on page 3.

# **DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL**

**Revision Date** 04/15/02

**Date Issued** 07/72

**Revisions marked with #**

**Filing Number** 10,206

**Page 6 of 8**

---

## **Encumbrance Adjustment**

### *Review of Encumbrances*

Encumbrances that should be liquidated will be left in STARS if by using a modifier code of “P” instead of an “F” on a payment voucher. A “P” may be used if it is not known that a payment is a final payment. Leaving encumbrances active that should be cancelled ties up cash and/or spending authority that could be used for other purposes. Agencies should review each of their encumbrances periodically to determine if there are any that should be cancelled. Encumbrances must be reviewed at the end of each fiscal year. To assist in the review process at the end of a fiscal year, the Audit Services Team of the Division of Accounts and Reports provides each agency with a listing of outstanding encumbrances to be verified and justified.

## **PROCEDURES**

To help clarify the use of form DA-107 in STARS, we have outlined below procedures and commonly used transaction codes to be used in processing this document. The requirements for each of the data elements for adjusting an existing encumbrance or for establishing a new encumbrance are also shown on the table that follows.

### **Adjust Existing Encumbrance**

When increasing, decreasing, or canceling an existing encumbrance line, the following data fields on the adjusting transaction must be the same as those on the encumbrance: Vendor No./Sfx., Reference Doc./Sfx., Fund, BFY, Index, PCA, and Sub-obj. The current document prefix must always be “H”. If a encumbrance line is cancelled or liquidated in error, the line may be reactivated by entering “A” in the Modifier (M) field. Please note that only one reference document number should be shown on each form but multiple suffix lines may be indicated, except DA118s which can have adjustments for multiple encumbrances.

*Transaction Codes for Adjustments* (Current Document Prefix must be “H”).

804 Increase Firm Encumbrance

804R Decrease Firm Encumbrance

806 Cancel Firm Encumbrance (Modifier “F”)

814 Increase Contingent Encumbrance

814R Decrease Contingent Encumbrance

816 Cancel Contingent Encumbrance (Modifier “F”)

### **Establish New Encumbrance**

To establish a new encumbrance, the current document prefix must be an “A”, “B”, or “C”. Also, if you want to add new encumbrance lines to an existing encumbrance number, you may do so by

# DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL

Revision Date 04/15/02

Date Issued 07/72

Revisions marked with #

Filing Number 10,206

Page 7 of 8

using the original encumbrance number as the current document number and numbering the new transaction lines beginning with the next available number after that used on the original encumbrance document. For example, if suffix lines 01 and 02 were used on the original document, the suffix lines on the current DA-107 must be numbered 03, 04, etc.

*Transaction Codes for New Encumbrances*(Current Document Prefix must be “A”, “B”, or “C”)

854 Record Firm Encumbrance Not Pre-encumbered

864 Record Contingent Encumbrance Not Pre encumbered

The purpose of the transaction should be shown on the form. The DA-107 should be submitted with a batch sheet.

ENCUMBRANCE TABLE		
	Adjustment	New Encumbrance
Agency No.	Required	Required
Current Document No. Prefix	H + original encumbrance no. (H + 7 digits)	A, B, or C + actual encumbrance no. to be assigned (1 letter + 7 digits)
Vendor No./Sfx.	Required and must match enc. Except when adjusting DA-118	Required
Current Document Sfx.	Should be numbered sequentially: 01, 02, 03, etc	The number you want assigned to the encumbrance line being set up – each sfx. no. must be <i>unique</i> – not found anywhere on encumbrance nor appearing anywhere else on the form.
T/C	<div> <u>Increase</u>   <u>Decrease</u>   <u>Cancel</u> </div> <div> Firm      804      804R      806  Contingent   814      814R      816 </div>	854 864
Ref. Doc./Sfx.	Required – refers to line no. which already exists on encumbrance being adjusted (A, B, or C + 7 digits)	Not allowed
Modifier	1. 804, 814 “P” cannot be used “F” cannot be used “A” can be used – but only to reopen sfx no. that was previously closed and then only to add back money  2. A modifier code cannot be used when 804R and 814R are present.  3. 806, 816 requires an “F”-no “R” allowed	Not allowed
Fund, BFY, Index, PCA, Sub-obj.	Must always match exactly the line being adjusted	Required
Agency Use	Optional	Optional

# **DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL**

**Revision Date** 04/15/02

**Date Issued** 07/72

***Revisions marked with #***

---

**Filing Number** 10,206

**Page 8 of 8**

## **CONTACT SOURCES**

Inquiries regarding encumbrances should be directed to:

Division of Accounts and Reports  
Central Accounting Services Section  
Audit Services Team